

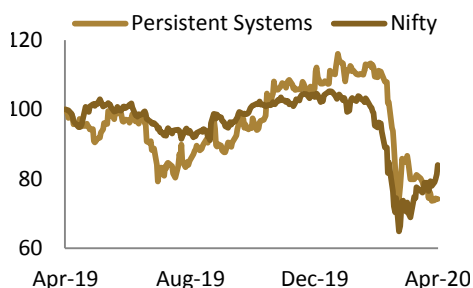
Market statistics

Current stock price (₹)	505
Shares O/S (cr.)	7.7
Mcap (₹ cr)	3,856
52W H/L (₹)	740/420
Bloomberg	PSYS IN

Shareholding pattern

Promoters	31.44
Domestic Institution	24.79
Foreign Institution	19.97
Non-institution	23.80
of which more than 1%	
Shridhar Bhalchandra Shukla	1.60
Ashutosh Vinayak Joshi	1.46

Persistent Systems vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	15.4	13.1	13.4
EPS (₹)	47.4	42.6	47.6
CEPS (₹)	69.0	65.8	72.3
P/E (x)	11.6	11.9	10.6
P/BV (x)	1.8	1.5	1.4
EV/EBITDA (x)	7.5	7.4	6.0
Income growth (%)	5.9	(1.1)	7.2
EBITDA growth (%)	(13.6)	(4.2)	10.6
PAT growth (%)	(1.3)	(10.2)	11.7

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Persistent Systems reported a decline of 1.8% QoQ in revenue in US\$ terms, while margins increased 30bps QoQ. Its IP-led business remains muted (declined 19% YoY). EBIT margin at 9.7%. The Alliance business contracted 18.4% QoQ. Accelerite was up 11.8% QoQ, while digital expanded 7% QoQ. Top client's revenue declined 6.9% QoQ. There are multiple headwinds to the revenue and margins which play spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.

Revenue decline of 1.8% QoQ in US\$ terms: Persistent Systems reported broadly in-line US\$ revenue performance in Q4FY20, registered a decline of 1.8% QoQ to US\$127.1mn. Revenue growth during the quarter was primarily driven by 4.2% QoQ growth in Services revenue. ISV grew 10.3%, while Enterprise grew 8.8%. IP-led revenue declined 20.7% QoQ. BFSI was up 0.7%, while Telecom declined 4% QoQ. The Alliance business contracted 18.4% QoQ. Accelerite was up 11.8% QoQ, while digital expanded 7% QoQ. EBITDA margin increased by 30bps QoQ to 14.2% in Q4FY20, owing to lower SG&A expenses. Adjusted EBIT margin increased 40bps QoQ to 9.7%. Recurring net profit of ₹887mn was partially helped by a lower tax rate.

Client mining challenges persist. Despite resurgence in services business, the transition to more annuity-based longer-duration revenue model is a work-in-progress. This is predicated on the static revenue/client metric and decline in >US\$ 1mn clients, as dependence on new logo remains high (a risk in the current environment). Within verticals, BFSI and Healthcare & Life sciences outperformed supported by PSYS' Salesforce practice which grew 13% QoQ and is estimated to have contributed ~50% to 4Q services growth.

Building adjacencies to diversify Alliance business risk. PSYS' T2-5 accounts continued its strong growth trajectory (16% in FY20), while T1 account (IBM) reached its lowest level since Alliance commencement in 4QFY16. Building capabilities in IBM's Red Hat ecosystem and Dassault Systems (expanded partnership in North Europe) will support diversification of Alliance business, but the transition remains a structural risk.

Recent trends. PSYS' recent trends have been a tale of two cities with the services segment accelerating to mid-teens growth (vs. high single-digit average over 10 quarters), while Alliance & Accelerite units continue to be choppy. PSYS' S&M re-alignment towards client mining, cross-sell and large deals as well as delivery rejig has resulted in strong uptick in services business. Large opportunity exists to stabilize the volatility in Alliance portfolio (leadership change), but it may be gradual even as T1 account concentration continues to decline on an in-line revenue performance, even as dichotomy continued between Services business and a shrinking Alliance unit. Despite growth drivers from strong platform partnerships (Salesforce, Appian, OutSystems), lower annuity component and Alliance transition are expected to keep the revenue profile volatile.

Outlook & Valuation: While client addition in the Top bucket has been decent over the recent past, it has not yet translated into growth for PSYS. Further, the normalization of PSYS's expectations from the Alliance portfolio does not excite us on the revenue growth front. There are multiple headwinds to the revenue and margins which plays spoilsport. Hence, we maintain our Hold rating on the stock and await better entry points.



Exhibit 1: Quarterly details

₹ mn	4QFY19	3QFY20	4QFY20	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	118.3	129.4	127.1	(1.8)	7.4	Volume up 4.2% QoQ in Services (onsite: -0.2% QoQ and offshore: +4.5%). IP-led solutions was down 19% YoY.
Revenues	8,319	9,227	9,264	0.4	11.4	
- Operating costs	6,871	7,942	7,946	0.0	15.7	
EBITDA	1,448	1,285	1,318	2.5	(9.0)	
EBITDA margin (%)	17.4	13.9	14.2	30bps	(318)bps	EBITDA margin increased due to lower SG&A costs QoQ.
- Interest expense	1	15	12	(20.9)	NA	
- Depreciation	377	428	420	(1.9)	11.5	
+ Other income, net (incl forex)	225	348	293	(15.7)	30.0	
PBT	1,296	1,190	1,179	(0.9)	(9.0)	
- Taxes	268	260	292	12.2	8.9	
Effective tax rate (%)	20.7	21.9	24.8	289	407	Effective tax rate for FY21 to be between ~25%
PAT	1,027	929	887	(4.6)	(13.7)	
Net Margin	12.3	10.1	9.6	(50)bps	(278)bps	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY21E			FY22E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	560	483	(13.8)	610	518	(15.1)
Revenue	39,224	35,266	(10.1)	42,691	37,818	(11.4)
EBITDA margin (%)	14.8	14.1	(65)bps	15.2	14.5	(65)bps
EPS (₹)	53.1	42.6	(19.8)	59.5	47.6	(20.0)

Source: Trust Research

Exhibit 3: Geographical wise Performance

Geographical mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
US	80.9	79.7	82.6	83.7	80.9	82.5	81.4	80.1	80.2
Europe	8.2	12.0	7.5	7.6	7.9	8.5	9.9	10.6	8.8
APAC	10.9	8.3	9.9	8.7	11.2	9.0	8.7	9.3	11.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Client details

Client concentration	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Top client (%)	21.7	23.8	25.7	26.3	20.2	23.6	23.7	21.5	19.2
Top 5 clients (%)	40.9	43.8	43.3	45.0	40.0	44.6	44.3	42.3	41.5
Top 10 clients (%)	49.9	53.7	52.4	54.6	50.2	52.6	53.4	51.1	49.9
Large >US\$3mn	18	18	18	20	20	22	20	22	20
Medium > US\$1m <US\$3m	53	58	56	56	57	56	56	53	52
Clients billed (Services)	426	438	433	437	420	429	470	483	501
Clients billed (IP Led)	177	181	178	192	185	167	156	154	151

Source: Company



Human Resources: 100 employees on a net basis joined PSYS QoQ taking total head-count to 10,632. Attrition was down 60bps QoQ at 14.3%.

Exhibit 5: Employee strength at PSYS

(Nos)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Billable Personnel - onsite	2,713	2,757	2,656	2,659	2,630	2,658	2,779	2,893	2,872
Billable Personnel - offshore	14,669	14,836	14,827	15,163	16,034	16,783	17,067	17,526	18,708
Total billable employees	17,382	17,593	17,483	17,822	18,664	19,441	19,846	20,419	21,580
Billed Personnel - onsite	2,391	2,348	2,221	2,232	2,206	2,179	2,271	2,430	2,425
Billed Personnel - offshore	11,728	11,857	12,097	12,402	12,674	12,962	13,138	13,865	14,550
Total billed employees	14,119	14,205	14,318	14,634	14,880	15,141	15,409	16,295	16,975
Utilisation details									
Utilisation (blended, %)	81.2	80.7	81.9	82.1	79.7	77.9	77.6	79.8	78.7
Utilisation (onsite, %)	88.1	85.2	83.6	83.9	83.9	82.0	81.7	84.0	84.4
Utilisation (offshore, %)	80.0	79.9	81.6	81.8	79.0	77.2	77.0	79.1	77.8
Employees									
Technical	8,329	8,196	8,566	8,761	9,185	9,363	9,726	9,729	9,835
Sales & Business Development	211	237	247	266	273	272	285	266	263
Others	436	469	489	503	504	532	532	537	534
Total	8,976	8,902	9,302	9,530	9,962	10,167	10,543	10,532	10,632

Source: Company

Exhibit 6: Billing rates

US\$/ppm	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Onsite	16,662	16,360	15,787	16,204	16,846	16,742	17,155	16,761	17,276
Offshore	4,349	4,333	4,372	4,392	4,385	4,427	4,437	4,420	4,427

Source: Company

Exhibit 7: Other details

Revenue mix	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Onsite	34.1	31.1	29.7	29.9	31.4	30.5	31.0	31.5	33.0
Offshore	43.6	41.5	44.7	45.1	47.0	48.0	46.5	47.3	50.7
IP Led	22.3	27.4	25.6	25.0	21.6	21.5	22.5	21.2	16.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DSO	66	68	63	61	63	65	64	68	65
Attrition (%)	14.7	14.8	15.4	16.4	16.7	17.1	15.7	14.9	14.3

Source: Company



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	30,337	33,659	35,658	35,266	37,818
Op. Expenses	25,677	27,671	30,487	30,310	32,338
EBITDA	4,660	5,988	5,171	4,956	5,479
Other Income	1,217	633	1,324	1,248	1,348
Depreciation	1,585	1,573	1,660	1,786	1,906
EBIT	4,293	5,049	4,835	4,418	4,921
Interest	1	3	63	47	40
PBT	4,292	5,046	4,772	4,372	4,882
Tax	1,062	1,347	1,121	1,093	1,220
PAT	3,230	3,699	3,651	3,279	3,661
Minority	-	(183)	(248)	-	-
Adj Pat	3,230	3,517	3,403	3,279	3,661

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	40.4	46.2	47.4	42.6	47.6
CEPS	60.2	65.9	69.0	65.8	72.3
BVPS	265.9	293.1	309.9	338.6	370.2
DPS	10.0	11.0	12.0	14.0	16.0
Payout (%)	29.0	27.8	29.6	32.9	33.6
Valuation (x)					
P/E	17.1	13.7	11.6	11.9	10.6
P/BV	2.6	2.2	1.8	1.5	1.4
EV/EBITDA	10.8	7.5	7.5	7.4	6.0
Dividend Yield (%)	1.4	1.7	2.2	2.8	3.2
Return ratio (%)					
EBITDA Margin	15.4	17.8	14.5	14.1	14.5
PAT Margin	10.6	10.4	9.5	9.3	9.7
ROAE	16.0	16.5	15.4	13.1	13.4
ROACE	21.3	22.6	20.4	17.7	18.0
Leverage Ratios (x)					
Long Term D/E	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	(0.3)	(0.2)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Interest Coverage	-	-	-	-	-
Current ratio	3.9	4.3	3.1	3.4	3.6
Growth Ratios (%)					
Income growth	5.4	11.0	5.9	(1.1)	7.2
EBITDA growth	0.1	28.5	(13.6)	(4.2)	10.6
PAT growth	3.2	14.5	(1.3)	(10.2)	11.7
Turnover Ratios					
F.A Turnover x	11.7	14.4	14.9	13.0	13.5
Debtors Days	60	59	62	85	83
Payable days	23	22	28	27	28

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Equity Share Capital	800	791	764	770	770
Reserves & Surplus	20,472	22,656	23,093	25,294	27,724
Total Shareholders Fund	21,272	23,447	23,858	26,064	28,494
Non-current liabilities	201	302	(370)	(329)	(333)
Long term Borrowings	17	12	46	46	46
Deferred tax liabilities	25	37	(960)	(960)	(960)
Other LT liabilities & prov	160	253	544	585	581
Current Liabilities	4,474	4,402	6,474	6,394	6,822
Trade payables	1,673	1,517	2,247	2,242	2,392
Other cur liabilities & Prov	2,801	2,885	4,227	4,152	4,430
Total Liabilities	25,947	28,151	29,962	32,129	34,983
Assets					
Non-current Assets					
Fixed assets	2,589	2,343	2,391	2,711	2,805
Non-current investments	5,466	6,326	6,849	6,849	6,849
Long-term loans & adv	143	164	176	193	207
Other non-current assets	129	418	690	676	725
Current assets	17,620	18,900	19,856	21,700	24,397
Current investments	5,916	3,296	7,837	7,837	7,837
Trade receivables	4,847	4,923	5,922	8,213	8,289
Cash & bank balances	1,344	1,739	1,900	1,573	3,899
Short-term loans & adv	7	8	14	19	21
Other current assets	5,506	8,934	4,183	4,058	4,352
Total Assets	25,947	28,151	29,962	32,129	34,983

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	4,292	5,046	4,772	4,372	4,882
Depreciation	1,333	1,585	663	1,786	1,906
Interest expense	1	3	63	47	40
Others	-	(183)	(248)	-	-
CF before W.cap	5,626	6,451	5,249	6,204	6,827
Inc/dec in W.cap	657	(1,191)	(840)	2,214	9
Op CF after W.cap	4,969	7,642	6,089	3,990	6,818
Less Taxes	1,062	1,347	1,121	1,093	1,220
Net CF From Operations	3,907	6,296	4,969	2,897	5,597
Inc/(dec) in F.A + CWIP	1,357	1,327	1,707	2,106	2,000
(Pur)/sale of investments	1,711	3,224	80	-	-
Others	(1)	(3)	(63)	(47)	(40)
CF from Invst Activities	(3,069)	(4,553)	(1,850)	(2,152)	(2,040)
Loan raised	(5)	(5)	34	-	-
Equity Raised	(15)	(314)	(1,911)	5	(0)
Dividend	936	1,028	1,081	1,078	1,232
CF from Fin Activities	(956)	(1,347)	(2,958)	(1,072)	(1,232)
Net inc/(dec) in cash	(118)	396	161	(327)	2,326
Op. bal of cash	1,461	1,344	1,739	1,900	1,573
Cl. balance of cash	1,344	1,739	1,900	1,573	3,899

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